



AS MERKO EHITUS

SOCIAL RESPONSIBILITY REPORT



AS MERKO EHITUS GROUP

Social Responsibility Report 2015

Business name:

AS Merko Ehitus

Main activities:

Holding companies
General contracting of construction
Real estate development

Commercial Register No.:

11520257

Address:

Järvevana tee 9G, 11314 Tallinn

Postal address:

Pärnu mnt 141, 11314 Tallinn

Phone:

+372 650 1250

Fax:

+372 650 1251

E-mail:

group@merko.ee

Web site:

group.merko.ee

Auditor:

AS PricewaterhouseCoopers

Supervisory Board:

Toomas Annus, Teet Roopalu,

Indrek Neivelt, Olari Taal

Management Board:

Andres Trink, Tõnu Toomik



TABLE OF CONTENTS	3
BRIEF OVERVIEW OF THE GROUP	4
STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD	12
MANAGEMENT REPORT	13
EMPLOYEES	17
ETHICAL BUSINESS PRACTICES	20
ENVIRONMENT	21
SOCIAL RESPONSIBILITY	25
RECOGNITIONS	29
REPORT ON GOOD CORPORATE GOVERNANCE	32
RISK MANAGEMENT	44



AS Merko Ehitus consists of Estonia's leading construction company AS Merko Ehitus Eesti, the Latvian-market-oriented SIA Merks, UAB Merko Statyba that is operating on the Lithuanian market and the real estate development business unit along with real estate holding companies. Merko Ehitus focuses on general contracting of construction and on providing complete solutions in professional construction and real estate development. Long-term experience in various countries, a wide scope of construction services, flexibility, reliability and meeting the deadlines and primarily quality have helped group companies to achieve a strong position in the Baltics.

Wide scope of construction services: general construction, civil engineering, road construction and real estate projects.



The largest listed construction company in the Baltics



2015 revenue: EUR **251** mln



MERKO'S COMPETITIVE ADVANTAGES:

- Broad range of construction services and products, and comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects



2015 EBITDA: EUR **16** mln
Net profit 2015: EUR **10** mln

31.12.2015: **791** employees



2015 NEW CONTRACTS SIGNED:
EUR **247** mln



OUR VALUE OFFERING

AS PRIME CONTRACTOR, WE OVERSEE THE ENTIRE CONSTRUCTION PROCESS AND ARE RESPONSIBLE FOR THE COMPLETION OF THE CONSTRUCTION PROJECT AS A WHOLE:

- Integrated project management and construction service and provision of strategic consultation to the contracting entity throughout the process
- As needed, combined use of subcontractors and Merko workforce (concrete works, road construction, electrical constructions both indoor and outdoor)
- Real estate investments and development, managing the entire apartment development process: development, construction and sales
- Co-investing, risk distribution and participation in PPP (public-private partnership) projects

MAIN EVENTS IN 2015

JANUARY

- AS Merko Ehitus launches the first phase of construction in the Tartu road 52 apartment development project in central Tallinn. In this phase, 103 apartments in three of an eventual five apartment buildings will be built, along with the underground parking garage that will connect all of the buildings. Completion of the first phase is scheduled for the end of 2016.
- One of the most prestigious residential properties in Tallinn is completed at Kentmanni 6. The lower two aboveground storeys of the 14-storey building house commercial spaces, while the upstairs storeys have 92 exclusive apartments.
- SIA Merks delivers the completed Polipaks factory building. The construction works were performed on an area of 67,000 m² and many complicated engineering solutions were used in construction of the building.



- The Nasdaq Baltic Markets name AS Merko Ehitus as the company with the third-best investor relations in the Baltic states and the company with the region's second-best e-relations with investors.

FEBRUARY

- The operation to close the Kohtla-Järve industrial waste and semi-coke dump in north-eastern Estonia is completed. In the process, a hill of mine waste amounting to



6 million m³ was relocated, 84 hectares were replanted, a rainwater collection system more than 8 km long was installed, and 2.5-hectare lakes containing liquid oil shale mining residues were closed.

- SIA Merks and SIA Vastint Latvia enter into a construction contract for a six-storey multifunctional building at Antonijas iela 17A, Riga. The works include the construction of two apartment buildings connected to each other via the ground floor. The contract is valued at approximately EUR 11.4 million.

MARCH



- The Estonian Concrete Association announces the winner of the Concrete Building of the Year 2014 award – the multifunctional Tondiraba Ice Arena, built in the space of 14 months by AS Merko Ehitus Eesti.

APRIL

- Kalaranna Arenduse OÜ (now Kodusadam OÜ), part of the AS Merko Ehitus Group and BLRT Grupp Aktsiaselts enter into an agreement for the purpose of acquiring

commercial and residential real estate at Staaplist. 3, 4, 8 and 12 in Tallinn and transport land at Staapli st. T1 and T2. The Noblessneri Quarter, which has a distinguished history, is to be site of an apartment development unique in Estonia. Four apartment buildings with nearly 200 apartments and commercial space will go up on the shoreline next to the Noblessneri Marina.



- AS Merko Ehitus launches the fifth stage of the Paepargi residential development in the Lasnamäe district of Tallinn, encompassing three 4-storey buildings at Paepargi 29, 31 and 33, each one with 19 apartments.
- OÜ Fort Ehitus AS, a subsidiary of Merko Ehitus group company AS Merko Ehitus Eesti enters into a contract for services with Keski-Suomen Betonirakenne OY for pile foundation work on the Tripla development project in Helsinki, Finland. The contract is for construction of a pile wall and is valued at approximately EUR 3.0 million.
- The general meeting of shareholders approves the 2014 annual report, with net profit of EUR 12.4 million, and decides to pay shareholders dividends of EUR 0.41 per share. It is also decided to reduce share capital by EUR 0.23 per share and confirm AS Pricewaterhouse Coopers as AS Merko Ehitus' auditor for FY 2015-2017.

MAY

- AS Merko Ehitus releases its financial results for Q1: Three-month revenue stands at EUR 45.6 million and net profit is EUR 0.8 million.
- AS Merko Ehitus launches the development of an apartment building at Jahu st. 1A in the Kalamaja district of Tallinn. Featuring distinctive architecture, the 37-unit building is scheduled for completion by summer 2016.
- AS Merko Ehitus Eesti and OÜ T6A enter into a contract for project management services for design and construction of a residential/commercial building at Tatari st. 6a in Tallinn. The contract covers design and construction of a seven-storey, 40-apartment building including infrastructure works. The contract is valued at approximately EUR 6 million.



- AS Merko Ehitus Eesti and a 93% subsidiary of the OÜ Pro Kapital Grupp Invest, AS Tallinna Moekombinaat, enter into a contract for design and construction of the T1 shopping and entertainment centre located at Peterburi road 2, Tallinn. The building's gross area is about 130,000 m². The estimated cost of the centre is EUR 70 million.

MAIN EVENTS IN 2015

JUNE

- Merko Ehitus enters into a five-year cooperation agreement with the Estonian Union of Architects, which each year will hand out an award to a deserving architect. Peeter Pere is the first architect to be chosen for the honour.
- AS Merko Ehitus Eesti and OÜ Poordi 1, which is managed by the Trigon Capital team, enter into a contract for design and construction of a residential/commercial building at Poordi 1, Tallinn. The contract covers construction of the building along with infrastructure works. The contract is valued at approximately EUR 5 million.



- UAB Merko Bustas starts construction of an apartment building in downtown Vilnius at Krokuvos 73. The six-storey building with 98 apartments is being built in a commercial district near Konstitucijos street, where various office buildings are also being built, creating thousands of new working places.

JULY

- UAB Merko Statyba and GE Wind Energy GmbH enter into a contract for performance of construction work at Šilute wind farm in Lithuania. Under the contract, UAB Merko Statyba will build 24 reinforced concrete wind generator foundations. The contract is valued at EUR 6.5 million.

- AS Merko Ehitus Eesti subsidiary AS Merko Tartu launches the Kaupmehe apartment development, including three apartment buildings with a total of 90 apartments. The company launches construction of the first building.

AUGUST

- AS Vooremaa Teed, which is part of the AS Merko Ehitus group, enters into an agreement with the Road Administration to perform road maintenance on state roads in Viljandi County from 2016–2020.
- AS Merko Ehitus releases its H1 and Q2 results: the sales revenue for the first half of the year is EUR 116.2 million and net profit is 2.4 million, while the Q2 figures are EUR 70.6 million and 1.6 million, respectively.

SEPTEMBER

- The modern Meriküla waste water treatment plant is completed in Muraste, Harku County, ensuring the households in the growing area with the required level of service. Thanks to the new plant, the water routed into Kakumäe Bay is significantly cleaner and meets the requirements of efflux set forth in the permit for special use of water.
- Merko Ehitus signs a three-year cooperation agreement with the Estonian Tennis Association. Merko is focusing on support for Estonian pro tennis and international tournaments, including investing into the development of the top men's tennis player, Jürgen Zopp, and the Merko Estonian Open held in Pärnu.
- Merko is continuing to support Estonian skiing and skiers, becoming the first major sponsor of Team Haanja, a non-profit foundation founded by eight Estonian skiers.

- AS Merko Ehitus launches the development of an apartment building at Sõpruse avenue 33 in the Kristiine district of Tallinn. The building has 51 spacious family apartments, complete with balconies and terraces.
- The world's leading business and investment magazine, Euromoney, names Merko as Estonia's best real estate developer. Merko also gets top spot in the Latvian residential real estate developer category.



- The Dzintaru II apartment buildings in Jurmala are completed. Park Residences, a complex of buildings on Dzintaru avenue, consists of three 4-storey buildings with a total of 66 apartments.

OCTOBER

- AS Merko Ehitus wins the award for Estonia's most competitive large company, and for the fourth year in a row, the Estonia's most competitive construction company.
- The Tallinn tram line no. 4 infrastructure refit is completed. This is a major project aimed at modernizing tram traffic and the city's infrastructure and making it faster and more environmentally friendly to get from Tondi and Lasnamäe districts to the city centre. The work was performed by a consortium of AS Merko Ehitus Eesti, KMG Inseneriehituse AS and Ratatek OY.
- The B energy class apartment building at Rästa 18 in Tallinn is completed, with 47

apartments and 4 commercial spaces.

- SIA Merks and SIA LMH enter into a contract for performing construction on a school complex in Pinki near Riga. The construction encompasses a 2-storey school building and 3-storey preschool complex connected to each other by a walkway. The contract is valued at approximately EUR 6.0 million.
- AS Merko Ehitus Eesti and EKEREPO OÜ, part of the EKE Invest AS group, enter into a contract for design and construction of a residential/commercial building at Mustamäe tee 3 and 3A, Tallinn. Telecom company Telia Eesti AS becomes the anchor tenant of the 14-storey building. The gross area of the office building constructed and the parking garage is 16,000 m². The contract is valued at approximately EUR 10.6 million.



- The city of Narva's water treatment plant is completed, ensuring quality drinking water to close to 60,000 Narva residents. Merko performed the general construction in renovating the Mustajõe water intake and building the new treatment plant; Denmark's Krüger AS was responsible for the technology.
- SIA Merks launches the Skanstes Parks apartment development in Riga's Skanstes neighbourhood. It consists of three buildings with around 140 apartments. The company launches construction of the first building, which has 52 apartments, at the address Grostonas 12.

MAIN EVENTS IN 2015

- SIA Merks completes engineering works in the Mežaparks part of the city, including construction of a noise barrier and technical networks, roads and landscaping.



- Liepājas Dzintars, a multifunctional centre built by SIA Merks, is completed. The complex architectural design won acclaim throughout the Baltics and elsewhere. The core of the eight-storey concert hall is a concert hall seating 1,200.
- In the first stage of the Fizikų Namai apartment development in Vilnius, 38 apartments are completed in a 5-storey building. The apartments are characterized by a heat-exchanger ventilation – a system that has seen little use up to now by developers of Lithuanian apartment buildings – wood-frame windows, open floor plans and balconies with ample natural light.

NOVEMBER

- Merko celebrates its 25th anniversary on 5th November. A look back at the activities and most complex projects is published in the book.
- A consortium consisting of AS Merko Ehitus Eesti and KMG Inseneriehituse AS and Tallinna Linnatranspordi AS signs a contract for performing design and construction of the Tallinn airport tram line. Under the contract, a tunnel underneath the railway

and Suur-Sõjamäe street to Keevise street is built from the tram turnaround loop near Ülemiste railway station. A new tram line extension will be built along Keevise street to the airport area, where a new tram turnaround loop will be built. The contract is valued at approximately EUR 11.5 million.

- Merko Ehitus Eesti and Tallinn University of Technology Development Fund issue their scholarships for 2015.
- AS Merko Ehitus releases its 9-month and Q3 results: the sales revenue for the first nine months is EUR 184.6 million and net profit is 5.6 million, while the Q3 figures are EUR 68.4 million and 3.1 million, respectively.
- AS Merko Ehitus launches the development of the Kivimäe 32 apartment development in Nõmme district of Tallinn. Two 3-storey buildings will be built. The two buildings will have a total 24 light-filled apartments.
- AS Merko Tartu launches construction of the second apartment building in the Kaupmehe development. The project consists of three buildings and 90 apartments.



- AS Merko Ehitus launches the second phase of construction in the Tartu road 52 apartment development project in central Tallinn. In this phase, two apartment buildings with 82 apartments will be built on the Lastekodu street side of the complex. The full project will be completed in 2017.



- AS Merko Ehitus Eesti and Maakri Kvartal OÜ enter into a design and construction contract for the Maakri Kvartal office building complex in the heart of Tallinn, on Maakri st. 19/21. The complex consists of a total of seven buildings: a 30-storey high-rise, a 10-storey and a 4-storey building. Four 3-4-storey architectural monuments from the early 20th century will also be renovated. Maakri Kvartal has a total of almost 36,000 m² of gross space. The construction contract is valued at close to EUR 30 million.
- AS Merko Infra completes work on the Jõhvi-Ida 35/6 regional substation along with switchgear facility and roads and lots, commissioned by Elektrilevi, the distribution grid company.



- NordBalt's HVDC Connection is completed in Lithuania – a converter substation in Klaipėda where UAB Merko Statyba was engaged in general construction on a Lithuanian transformer substation. The objective of the NordBalt project is to establish a connection between the Lithuanian and Swedish energy transmission systems. The connection is rated at 700 MW and the length is 450 km. The connector consists of high voltage direct current cables running undersea and

underground, and Lithuanian and Swedish transformer substations.

DECEMBER

- UAB Merko Statyba and E.L.L. Kinnisvara AS subsidiary UAB E.L.L. Nekilnojamasis Turtas conclude a construction contract for building an office building at Narbuto 5, Vilnius. The class A energy performance building has more than 4600 m² space to lease. The building has six aboveground storeys and two underground parking levels. The office building is seeking BREEAM certification. The contract is valued at approximately EUR 8.5 million.
- SIA Merks and Riga International Airport enter into a contract for performing the second phase of construction in the Riga International Airport passenger terminal. The contract covers interior and exterior finishing in the passenger terminal currently in progress. In addition, the construction works include hooking up the site to infrastructure and purchase and installation of equipment in the terminal. The contract is valued at approximately EUR 8.9 million.



- The fourth stage of the Paepargi apartment development project is completed – the first of three high-rises at Paepargi 49. The 14-storey building has 60 apartments with scenic views.

**Construction contract figures do not include VAT.*



THE MULTIFUNCTIONAL CENTRE "LIEPĀJAS DZINTARS" WITH AN INTERESTING ARCHITECTURE AND THE MOST CONTEMPORARY CONCERT HALL SOLUTIONS IN EUROPE, CONSTRUCTED BY SIA MERKS IN LIEPĀJA, WAS OPENED IN NOVEMBER 2015. THE CONCERT HALL WITH 1,200 SEATS CAN BE USED FOR BOTH CLASSICAL MUSIC CONCERTS AS WELL AS FOR DANCE EVENTS; CORPORATE CELEBRATIONS, ROCK AND POP CONCERTS. THE CONCEPT OF THE CONCERT HALL INVOLVES A SO-CALLED „EGG WITHIN AN EGG” DESIGN SOLUTION – THE CONCERT HALL IS SUSPENDED TO THE ENTIRE FRAMEWORK OF THE BUILDING AND THE BEARING FRAMEWORK IS MADE OF STRUCTURE STEEL FRAMING, CREATING THE IMPRESSION THAT ONE BUILDING HAS BEEN INSERTED INTO ANOTHER.

BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and in residential real estate development and on providing complete solutions in professional construction and real estate development in its home markets Estonia, Latvia and Lithuania. Long-term experience in various countries, a wide scope of construction services, flexibility, reliability and meeting the deadlines and primarily quality have helped group companies to achieve a strong position in the Baltics. Depending on the requirements of the contracting entities, the group companies perform both large scale, complicated and innovative projects as well as small-scale construction works, with a focus on general contracting and project management. Merko Ehitus is among the leading residential construction companies in the Baltic States.

Holding company AS Merko Ehitus is responsible for the development and implementation of the strategies of various group companies primarily through allocation and long-term planning of resources. The shares of Merko have been listed on the Tallinn Stock Exchange since 1997. The group employs 791 people. The group comprises construction and property development companies providing complete construction solutions in Estonia, Latvia and Lithuania,

among which the group's largest construction sector companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

Merko Ehitus is the company with the highest owners' equity in the Estonian construction sector and is able to finance projects by itself in long-term. We are conservative in involving debt capital. We ensure that we would have sufficient necessary resources for continuously investing in attractive projects.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with about 4% of the total volume of the Estonian construction market as of the end of year 2015. In Latvia and Lithuania, Merko Ehitus operates through its subsidiaries SIA Merks and UAB Merko Statyba, focusing selectively on projects where the competitive advantage is perceivable as compared to other market players. International quality, environmental protection and occupational safety certificates ISO 9001, ISO 14001 and OHSAS 18001 have been assigned to the group's larger construction companies.



OUR MISSION IS TO ESTABLISH AN INTEGRAL ENVIRONMENT. WE ARE PROUD OF THE FACT THAT WE HAVE BUILT HOMES FOR THOUSANDS OF FAMILIES IN THE BALTIC COUNTRIES. PHOTO: THE APARTMENT BUILDING AT KENTMANNI 6.

VISION

“OUR VISION IS RELIABLE SOLUTIONS AND QUALITY PERFORMANCE FOR YOUR IDEAS.”

VALUES

RESPONSIBILITY

We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.

KEEPING PROMISES

We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation, the keeping of one's promises is mutual.

COMPETENCE

We value quality and professionalism. We constantly develop our professional knowledge and skills.

INITIATIVE

We manage processes and we are result-oriented. We accept the challenges which presume more.

CREATIVITY

We are open, innovative and creative in working out and implementing the solutions. We have a will to carry out forward-looking ideas.



STRATEGY

“ THE BUSINESS STRATEGY OF AS MERKO EHITUS SUBSIDIARIES IS FOCUSED ON IMPROVING PROFITABILITY AND ENHANCING THE EFFICIENCY OF THE COST BASE, OFFERING GENERAL CONTRACTING SERVICES IN THE FIELD OF CONSTRUCTION OF BUILDINGS AND INFRASTRUCTURE FACILITIES AND DEVELOPING RESIDENTIAL REAL ESTATE IN ITS HOME MARKETS ESTONIA, LATVIA AND LITHUANIA. AS MERKO EHITUS AIMS TO BE A PREFERRED PARTNER TO ITS CLIENTS FOR CONSTRUCTION WORKS.

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

The Management Board and Supervisory Board of AS Merko Ehitus have approved the company's strategic development directions and long-term financial objectives for the period 2013 to 2018, which are:

average return on
equity of the period
2013-2018 of
at least **10%**

dividend rate
50-70%
of annual profit

equity ratio
at least **40%**

Considering the weak growth prospects of the Baltic construction and real estate market in the coming few years, the overall low interest rate environment, as well as the company's high equity base, the strategy and financial objectives are focused towards improving return on invested capital and on increasing the efficiency of the balance sheet.



DURING THE TWO YEARS OF THE CONSTRUCTION OF THE TRAM TRACKS OF TALLINN TRAM LINE NO. 4, THE TRAM TRACKS AND THE DEPOT SIDINGS ON THE PÄRNU HIGHWAY WERE RECONSTRUCTED ALONG WITH THE TRANSFER OF THE TRACKS ONTO A CONCRETE FOUNDATION; THE POWER TRANSMISSION GRID FROM TONDI TO ÜLEMISTE AND KADRIORG WAS REPLACED AND SIX TRACTION SUBSTATIONS WERE RECONSTRUCTED. IN ADDITION, AN EXTENSION TO THE TRAM LINE, INCLUDING A U-TURN CIRCUIT FOR TRAMS WAS ADDED TO THE REGISTERED IMMOVABLE AT 2 PETERBURI ROAD. DURING RECONSTRUCTION WORK, ABOUT 30 KM OF OVERHEAD TRANSMISSION LINES WITH AMORTISED POLES OF THE POWER TRANSMISSION GRID WERE REPLACED. A TOTAL OF ABOUT 11 KM OF EXISTING RAILS WERE RECONSTRUCTED, 54 NEW TRACK POINTS WERE ADDED, 12 OF WHICH ARE CONTROLLED AUTOMATICALLY. AS A RESULT OF OUR WORK, NEW TRAMS ARE SERVING LINE NO. 4 THROUGH CENTRAL TALLINN, ENSURING A MORE ATTRACTIVE CITYSCAPE AND MORE CONVENIENT TRANSPORT FOR RIDERS.

In 2015, the Group fulfilled two out of the three set long-term financial objectives:

average return
on equity
8.0%

dividend rate
90%
of annual profit

equity ratio
59,5%

In 2015, the group's return on equity was 8.0% (2014: 10.1%). Due to the declining volume of orders on the construction market and the prevalent ultracompetitive situation – at a time when the contracts for projects funded in the EU's current financial framework have not yet reached the market – our return on equity fell short of the long-term target.

In 2015, the Group achieved the other two long-term financial goal: the dividend rate was 90% (2015: 58%) and the equity ratio was 59.5% (2014: 51.0%).

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD



ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Dear reader,

As the leading Baltic construction company and real estate developer, we have always wanted to give our contribution to support society and the environment. In this, our 25th anniversary year, we achieved this task in several ways: through the work we performed for our customers on construction sites, the projects we developed, the work environment we create for our employees, and our long-term sponsorship projects.

The end of 2015 witnessed the completion, in Liepāja, Latvia, of one of the largest concert halls in the Baltics, an edifice whose architecture and multifunctionality has received a lot of recognition. The city of Narva's water treatment plant ensures quality drinking water to close to 60,000 Narva residents, and the Meriküla waste water treatment plant means that households in the area will get the required level of service. As a result of several stages of construction, top-calibre patient and physician facilities were developed at the North Estonia Medical Centre.

The results of the Merko Group depend on motivated, professional employees. Our objective is to be a trusted employer, to create a work environment that promotes high performance, an environment where occupational safety and employee development opportunities are inseparable parts. We employ some 800 people in the Baltics. We consider a fair salary very important, and in confirmation of this fact, we won recognition from the Tax Board for leading all Estonian construction sector companies in total workforce taxes paid.

As the leading apartment developer in the Baltics, Merko aims to develop and build comfortable homes and a high-quality environment for living. The architecture of buildings is important for such an environment, as is the surroundings of homes and ways of using them, carefully designed layouts for apartments, construction and finishing quality, energy efficiency and interior climate. The Merko brand is a mark of quality for apartment buyers – it stands for a home that will stand the test of time. In 2015, the world's leading business and investment magazine, Euromoney, named Merko as Estonia's best real estate developer and Latvia's best developer of residential real estate.

For years now, Merko has supported sports and recreational projects that help create ways for entire communities to participate in sports and exercise. We contribute to education with the aim of developing specialized fields and a vibrant rising generation of professionals. We also support keeping art and culture vital and making them available to more people, focusing on sites that are nationally important and have broad appeal.

Our largest sponsorship project continues to be the Estonian recreational trails project Eesti Terviserajad, which seeks to promote an active lifestyle and exercise on the nation's recreational paths and tracks. In 2005-2015, SA Eesti Terviserajad has, through its founders (Merko Ehitus, Swedbank and Eesti Energia) invested a total of EUR 3.9 million into developing the tracks. Through the joint cooperation, over 1,000 kilometres of maintained health tracks beckon to amateurs and elite athletes alike. The investments were made into all Estonian counties, with the biggest ones in Harju County, Tartu County and Ida-Viru County. Based on the preferences of the population in the respective locations of the trails and level of active use, the biggest investments were made into the facilities and tracks at Pirita and Nõmme-Harku in Tallinn, and Kõrvemaa and Jõulumäe.

We also continued to support skiing in Estonia and embarked on a partnership with the Estonian Tennis Association. In Latvia, we are a long-time supporter of the Rīga Stradiņš university women's basketball team.

In the field of education, we support scholarships given to young researchers and faculty members at the Tallinn University of Technology and to an outstanding civil engineering student.

In the field of culture, our longstanding relationship with the Art Museum of Estonia helps us preserve and protect Estonian art heritage. In 2015, we continued support for a major project at the St. Nicholas Museum, "Rode Altarpiece in Closeup", focusing on the conservation of the grand late medieval retable of the main altar. Also in 2015, we started supporting the architecture field in both Estonia and Lithuania. In the former, in cooperation with the Estonian Association of Architects, we hand out an annual prize in recognition of an outstanding work of architecture and the architect responsible for it. It's important to us that an international jury evaluates the works and selects the competition winner.

We do our utmost to support the charity projects initiated by our employees. From 2013, over 8,000 euros has been raised as part of three projects, helping to improve the quality of life for three needy people and their families.

We are certain that our long-term success as a company hinges on socially responsible management and sustainable activity, and thus we will continue developing and implementing the principles in future as well.

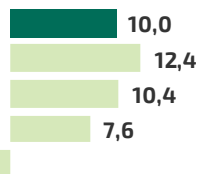
Andres Trink

MANAGEMENT REPORT

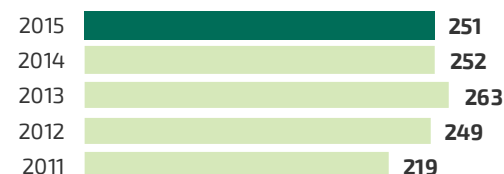
BRIEF OVERVIEW OF 2015

NET PROFIT
in million euros

2015
2014
2013
2012
2011



REVENUE
in million euros



PROFITABILITY

Profit before tax in 2015 was EUR 11.7 million (2014: EUR 13.3 million), which is equivalent to a profit before tax margin of 4.7% (2014: 5.3%). Gross profit margin in 2015 was 9.1% (2014: 9.8%), which has decreased by 6.6% compared to the same period last year. Net profit in 2015 was EUR 10.0 million (2014: EUR 12.4 million), down 19.5% from the previous year. Net margin decreased by 19.0% to 4.0% (2014: 4.9%).

REVENUE

Revenue in 2015 was EUR 251.0 million (2014: EUR 252.3 million), which has decreased by 0.5% compared to the same period last year. The share of construction service revenue earned outside of Estonia has increased in 2015 to 28.7% (2014: 25.8%). The number of apartments sold in 2015 (403 pcs, revenues of EUR 61.4 million) has increased by 2.0% and the revenue from apartment sales by 55.8% (2014: 395 apartments, revenues of EUR 39.4 million).

CASH POSITION

At the end of the reporting period, the group had EUR 39.9 million in cash and cash equivalents and equity EUR 125.7 million (59.5% of total assets). Comparable figures as at 31 December 2014 were accordingly EUR 51.6 million and EUR 127.0 million (51.0% of total assets). As at 31 December 2015 the group had net debt of negative EUR 8.7 million (31 December 2014: negative EUR 13.9 million).

ORDER BOOK

In 2015, group companies signed new contracts in the amount of EUR 247.0 million (2014: EUR 170.4 million). As at 31 December 2015, the group's secured order book stood at EUR 246.9 million (31 December 2014: EUR 179.1 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

The Management Board proposes to distribute to shareholders EUR 9.0 million (EUR 0.51 per share) in dividends from retained earnings in 2016. This is equivalent to a 90% dividend rate for 2015.

		2015	2014	VARIANCE
Revenue	million EUR	251.0	252.3	-0.5%
Gross profit	million EUR	23.0	24.7	-7.1%
Gross margin	%	9.1	9.8	-6.6%
EBITDA	million EUR	15.5	16.4	-5.7%
EBITDA margin	%	6.2	6.5	-5.2%
Profit before tax	million EUR	11.7	13.3	-12.1%
PBT margin	%	4.7	5.3	-11.7%
Net profit attributable to equity holders of the parent	million EUR	10.0	12.4	-19.5%
Net margin	%	4.0	4.9	-19.0%
Earnings per share	EUR	0.56	0.70	-19.5%
Dividends per share	EUR	0.51*	0.41	+24.4%

* Pursuant to the Management Board's proposal

		31.12.2015	31.12.2014	VARIANCE
Return on equity (annual)	%	8.0	10.1	-20.5%
Equity ratio	%	59.5	51.0	+16.8%
Order book	million EUR	246.9	179.1	+37.9%
Total assets	million EUR	211.1	249.3	-15.3%
Number of employees	people	791	765	+3.4%

MULTIFUNCTIONAL CENTRE LIEPAJAS DZINTARS

Address: Radio tn 8, Liepāja
Client: Liepāja City Council
Construction period: 2013-2015

Liepāja concert hall is the new home of Liepāja Symphony Orchestra. In addition to that, the multifunctional hall can be used for dance events, corporate celebrations, rock and pop concerts. The 8-storey complex includes concert hall with 1200 seats, rehearsal rooms; the entrance area can be used for public functions and exhibitions. Connected to the main building there is a commercial and administrative wing. Between the main building and the commercial wing of the building, there is a public square. The design of the Liepāja concert hall was developed by an international team; the technical solutions of the design were also developed in Austria and Latvia, involving various top experts from all over Europe. The expert opinion shows that the solutions used for this concert hall are the most advanced in Europe.



NORDBALT KLAIPEDA STATION

Address: Kiškėnai Village, Dvilai Subdistrict, Klaipėda District

Client: LITGRID AB / ABB AB

Construction period: 2014–2015

In the strategic project Nordbalt, there was built a power link between Lithuania and Sweden, which enables Lithuania to purchase electricity from Northern European countries that are rich in hydro energy resources. The length of the 700 MW link is about 450 km. The link consists of high-voltage direct-current undersea and underground cables and of current converter stations in Lithuania and Sweden. The strategic power project was implemented by Litgrid, the Lithuanian transmission system operator, and Svenska Kraftnät, the Swedish transmission system operator.

As part of the project, Merko Statyba UAB performed the construction of a transformer substation in Lithuania. The construction works included a transformer building, administrative building, diesel generator, transformer field, 330kV AC equipment field, cooling equipment, modular transformer plants. The rest of the territory saw the construction of access roads, utility networks, and other infrastructure. The area of the built-up part of the immovable is close to 13,900 m².



POLIPAKS PLANT

Address: Mālkalni, Marupe County

Client: SIA Polipaks NT

Construction period: 2013-2015

The total land area where construction works were performed was close to 67,000 m² with the total buildings area of over 35,000 m². The production area consists of three workshops: in the first, polythene is produced; the second hosts a printing unit, and the third is the processing unit. In packaging material warehouse and wholesale unit, the largest exhibit in Latvia displaying the offered packaging materials is also available. Various engineering-technical solutions were employed in the project implementation.

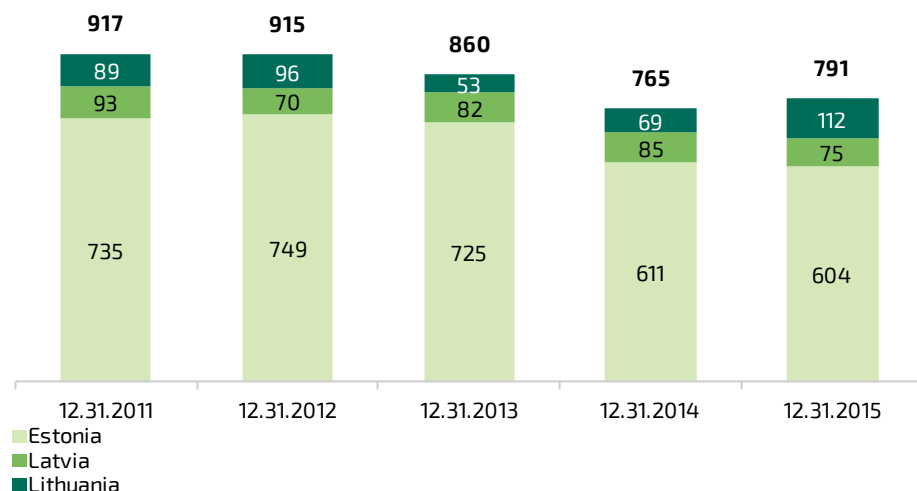


EMPLOYEES

Compared to the same period last year, the number of the group's employees increased by 26 (+3.4%) and as at 31 December 2015, the group had a total of 791 employees (including fixed-term and part-time employees).

In 2015, the number of employees has increased mainly due to the growth of construction volumes in Lithuania.

NO OF EMPLOYEES
people



PERSONNEL POLICY

As at 31 December 2015 Merko Ehitus employed a total of 791 people in Estonia, Latvia, Lithuania and Finland, including office staff, project managers and on-site team members. Experienced professionals are the company's key strength. The group's personnel policy supports achievement of the company's goals, ensuring sustainability of the organisation and management, staying competitive, maintaining and increasing the value of the organisation and constant development of competence.

We develop responsible management throughout the organisation, guided by company strategy, management system, applicable law, ethical values and good organisation management practice. We treat employees as partners, involving

them in the decision-making process and perceiving that the right to make decisions includes responsibility.

We support people's achievement of their professional goals and the advancement of their career in the company by encouraging existing employees to apply for vacant or new positions within the company. We ensure an adequate, fair and competitive salary that complies with the contribution of the employee and a motivation package.

We provide employees with conditions for professional development and career opportunities by supporting studies and acquisition of professional knowledge and experience. We support our employees for developing their competence and skills.

HEALTH AND SAFETY

Creating a safe working environment for well trained, healthy and motivated employees, both in offices and on construction sites, has always been an important aspect in the operations of the group's construction companies. Pre-construction risk analysis remains constantly in focus, aimed at identifying common protection needs of site workers, measures and requirements for use of personal protection equipment. Basic and supplementary training in the field of occupational health and safety forms part of our personnel policy. Training provides knowhow and skills that enables to prevent risks, analyse them and find the most suitable technical and economic solutions. The management system for occupational health and safety that was certified in 2004 and complies with the OHSAS 18001 standard allows to effectively monitor working environment in construction sites and offices. Basic and supplementary training has always been available for inspectors to guarantee their competence.

Periodic health inspection provided by the occupational health partner to assess work-related risk factors helps to prevent employee health problems, plan safer working environments or, with the partial support of the company, to allow employees to use the necessary health rehabilitation measures. Additionally, the company organises for its employees free vaccinations and, naturally, provides its on-site personnel with comfortable compliant work clothes and footwear

A balanced personal life and a healthy way of living provide a counterbalance to stressful work. In order to promote recreational sports and to maintain working ability we pay our employees sports and health allowance. Additionally, Merko has for more than ten years contributed to the development of Estonian health trails - today a hundred health trails all across Estonia are available for use free of charge for all Merko employees as well as everyone else.

PERSONNEL DEVELOPMENT AND RECOGNITION

Work at Merko demands great responsibility but also offers variety, new challenges and opportunities for study and development. We value and support employees' personal development, offer various training courses internally and externally both as team training and individual study.

We fully support employees' studies and recognise graduation and completion of a diploma. We celebrate together with our employees their personal events and company events for employees welcome everybody together with their spouses or guests and family events welcome the whole family. We offer additional benefits in the form of holiday days to our long-time employees. We highly value teamwork and a strong sense of team identity.

In order to recognise the most prominent employees of the company and the best business partners, employees annually elect AS Merko Ehitus Eesti Achievers of the Year. In 2015, the following employees, team and business partner were elected as Achievers of the Year:

New Talent of the Year	Kristo Paumets	Site manager, external networks department
Office Employee of the Year	Hannes Rohlin	Quantity surveyor, quantity surveying department
Civil Engineer of the Year	Andres Peterson	Site manager, civil engineering division
Electrical Engineer of the Year	Ivar Kukk	Project manager, electrical works department
Residential Contractor of the Year	Taavi Lipp	Project manager, residential construction division
General Contractor of the Year	Risto Sappinen	Project manager, concrete works department
Great Feat of the Year in Estonia	Director of residential construction division Tiit Kuusik and the residential construction division managed by him Team: Harry Riibe, Allar Keerme, Arne Treier, Ain Kurvits, Irina Mutli, Almar Otter, Priit Past, Janek Jõgi, Marek Kenk, Taavi Kotkas, Mikk Kruusmaa, Reimo Mäesalu, Silver Tampuu, Relica Virunurm, Helena Maide, Madis Nurm, Indrek Hansen, Jaanus Kruus, Taavi Lipp, Kalev Luiga, Mart Paas, Ahti Suppi, Raigo Tõnisalu, Helen Mai, Tõnis Rohula and Simar Selezov	
Great Feat of the Year in Latvia	Construction of Liepāja concert hall and the project managers Ivo Brālēns and Sergejs Perņēcs Team: Artis Šmits, Jānis Straupenieks-Brancis, Arturs Tavķiņš, Mikus Valters, Dzintars Šnepsts and Uldis Šteinbergs	
Great Feat of the Year in Lithuania	General construction works of Nordbalt HDVC converter station in Klaipėda and the project manager Artūras Pranas Karazija Team: Donatas Dapkūnas, Andrius Birulynas, Aidas Katkauskas, Mindaugas Šimkevičius and Algis Gužauskas	
Business Partner of the Year	Civen OÜ	Partnership in the construction of the Tondiraba ice arena



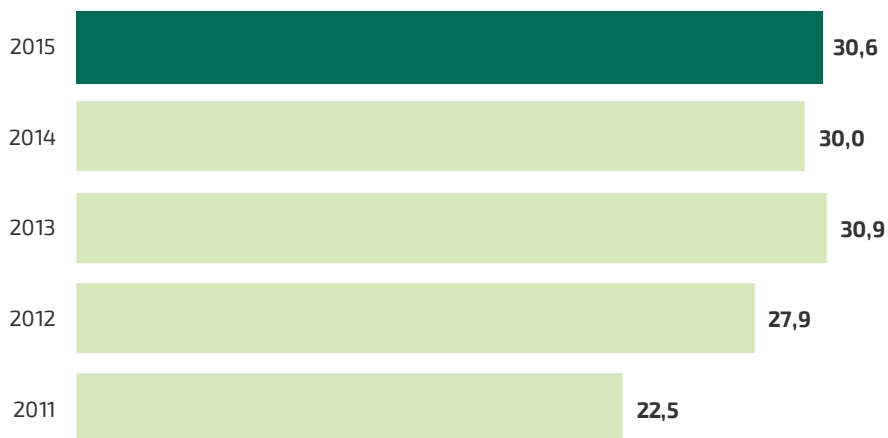
GREAT FEAT OF THE YEAR IN ESTONIA: DIRECTOR OF RESIDENTIAL DEVELOPMENT DIVISION OF AS MERKO EHITUS EESTI, TIIT KUUSIK RECEIVING THE AWARD.

REMUNERATION

The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2015, the labour cost was EUR 30.6 million (2014: EUR 30.0 million), up 2.0% from the previous year.

LABOUR COST
in million euros



GREAT FEAT OF THE YEAR IN LATVIA: LIEPAJA CONCERT HALL AND ITS TEAM. CEO OF SIA MERKS, OSKARS OZOLINS RECEIVING THE AWARD.



GREAT FEAT OF THE YEAR IN LITHUANIA: NORDBALT HDVC CONVERTER STATION AND ITS TEAM. CEO OF UAB MERKO STATYBA SAULIUS PUTRIMAS AND CONSTRUCTION DIRECTOR JAANUS RÄSTAS RECEIVING THE AWARD.

ETHICAL BUSINESS PRACTICES

Merko's core values include ethical business practices, which is an important success factor in the long run. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders and support fair competition and equal treatment. Unethical business practices carry serious consequences - including hindering the functioning of a fair market and distorting competition.

The AS Merko Ehitus group does not tolerate any form of corruption. We have undertaken the obligation to engage in honest business and to be in compliance with anti-corruption laws in each country where we operate. We are guided by ethical principles in our actions. We make sure that our employees know these principles and adhere to them in their work. In order to facilitate this, the group has enacted a Code of Business Ethics. The code of business ethics includes, among other things, guidelines on the following matters:

- conflicts of interests;
- confidentiality obligation;
- handling of insider information and insider transactions;
- bribery and corruption;
- hospitality and gifts;
- competition rules;
- equal treatment;
- protection and proper use of assets.

The topic of business ethics has been thoroughly covered on the group's website <http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>. As a new feature in 2014 all employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, to which the <http://group.merko.ee/en/corporate-governance-2/responsibility/reporting-channels/> website provides an overview. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual cooperation partner Ernst & Young – and will lead to appropriate action.

The reports forwarded via the report form, the reporting hotline or e-mail will not be forwarded to Merko – Ernst & Young will only give Merko a summary of the content of reports that need investigation, without any reference to the source of the information. Information will also be kept confidential and used solely for the purposes of solving the relevant incidents by Merko's managers and the audit committee to whom a report has been made. In 2015, the group received one tip which led to an internal investigation (2014: 0 tips).



REPORT FORM



E-MAIL



HOTLINE



DIRECT COMMUNICATION

ENVIRONMENT

The environmental management system that complies with ISO 14001 standard continues to focus on waste handling issues of construction sites, highlighting the need to sort waste in the most appropriate location and handing waste over only to such service providers that are licensed to handle such waste. In cooperating with such companies we have often discovered polluted soil and waste containing hazardous substances. For years, the company has been recording the quantities of waste created in construction sites and submitted respective annual reports to the Environmental Authority.

In environmentally sensitive tenders, we have always considered the requirements to the environmental impact assessment of projects, carried out preliminary research if necessary or conducted replacement planting, if it has been inevitable to fell trees when preparing the construction site.



TOOMAS ANNUS, CHAIRMAN OF THE SUPERVISORY BOARD OF AS MERKO EHITUS, INTRODUCING THE MERKO 25 ANNIVERSARY BOOK, WHICH GIVES AN OVERVIEW OF THE MAIN BUILDINGS AND FACILITIES BUILT BY MERKO ALL OVER THE BALTICS.

MERIKÜLA WASTEWATER TREATMENT PLANT

Address: **Muraste, Harku County**

Customer: **Strantum OÜ**

Construction period: **2014–2015**

The new and modern Meriküla wastewater treatment plant ensures the service that area's increasing numbers of households need. Thanks to the new plant, the water reaching Kakumäe Bay is much cleaner and meets the requirements for efflux set forth in the special water use permit for BOD7, total N, total P, COD and suspended solids. In the course of the work, the consortium of AS Merko Ehitus Eesti and AS Merko Infra demolished the old plant and built a new plant with a capacity of 4000 IE (human equivalent), which can later be expanded to 6,000 IE.



CITY OF NARVA WATER TREATMENT PLANT

Address: Kulgu 1, Narva, Ida-Viru County

Customer: AS Narva Vesi

Construction period: 2013–2015

The consortium of AS Merko Ehitus and Krüger A/S (Denmark) designed and renovated the city of Narva's water treatment plant and the Mustajõe catchment's pump station. In the course of the work, a completely new water treatment plant was built, ensuring quality drinking water for close to 60,000 inhabitants of Narva. Krüger A/S designed and built to completion the technological part of the water treatment. The rest of the work related to the plant were performed, and the Mustajõe pump station renovated, by AS Merko Ehitus Eesti.

In terms of construction technology, the water treatment plant with a capacity of 20,500 m³/d was complicated – both in terms of a concrete structure and technological system; the international dimension was an additional challenge. Incoming water is pumped into the plant from a distance of close to 26 km, from Mustajõe River, and the water flows downhill through the rest of the seven-level treatment process until it ends up as clean water in reservoirs (3 of them, each approx. 6,000 m³).



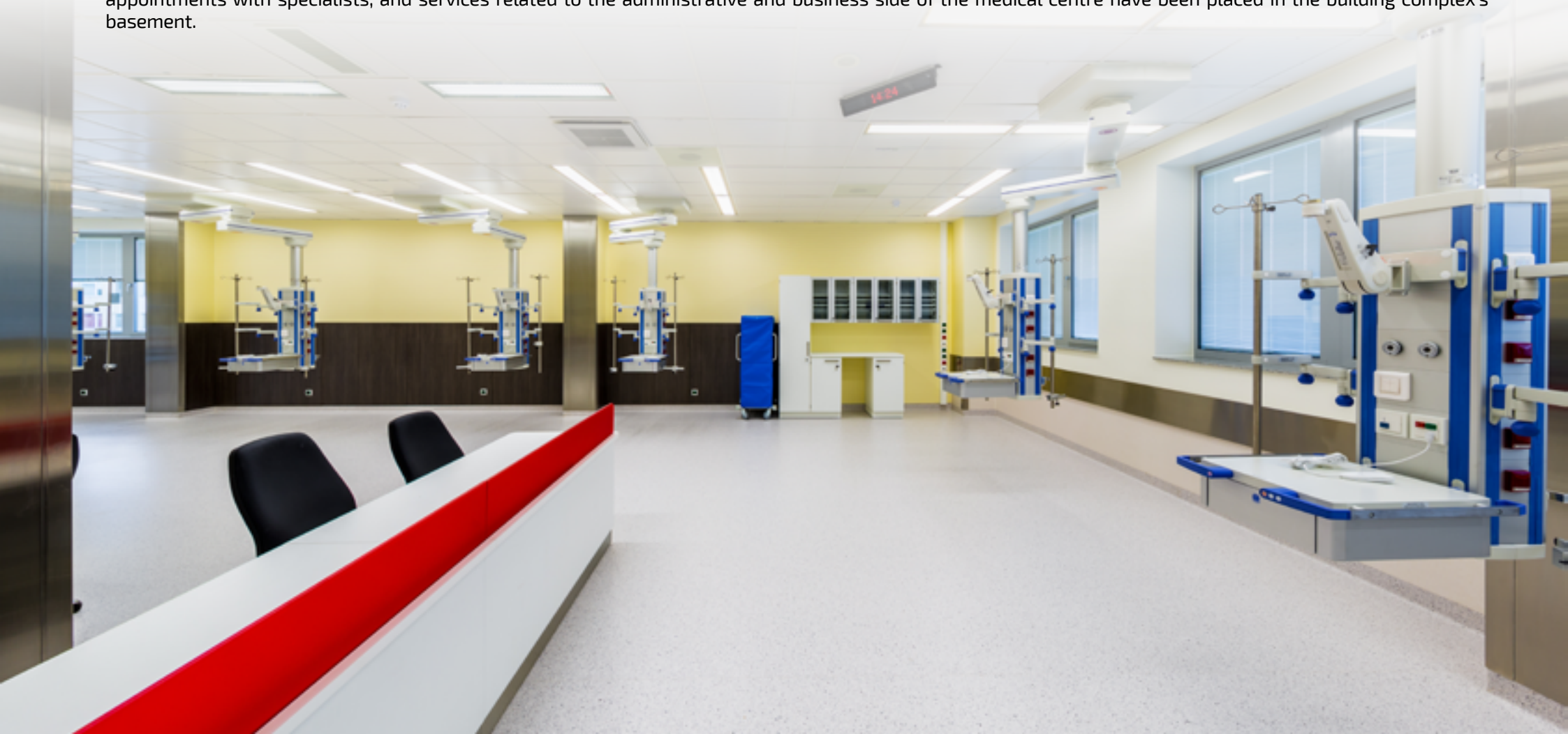
NORTH ESTONIA MEDICAL CENTRE C-BLOCK

Address: Sütiste road 19, Tallinn

Customer: SA Põhja-Eesti Regionaalhaigla

Construction period: 2012–2015

The North Estonia Medical Centre C-block renovation project is a part of the largest acute medical care provider to be renovated in the independent Republic of Estonia. The completed C-block allows the medical centre to accommodate activities related to cardiologic treatment, and laboratory facilities needed for run tests on individuals and pharmaceutical preparations, which have become the basis for providing contemporary care. Day outpatient operating wing, outpatient appointments with specialists, and services related to the administrative and business side of the medical centre have been placed in the building complex's basement.



SOCIAL RESPONSIBILITY

The group is responsible for its decisions and activities that have an impact on our employees, customers and partners and, more broadly, on local communities.

In 2015, Merko Ehitus continued its long-term sponsorship projects in the same fields:

- We support sports and recreational sport projects that help create ways for entire communities to participate in sports and recreation.
- We support education in order to develop specialised education and plant the seeds for a new generation of professionals.
- We support keeping art and culture vital and make them available to more people, focusing on sites that are nationally important and have broad appeal.

During the year, the group supported sports, culture and education and made charitable donations total in the amount of EUR 0.25 million (2014: EUR 0.22 million).

The company's largest sponsored project is the Estonian Health Trails (www.terviserajad.ee) project founded in 2005 in collaboration with Swedbank and Eesti Energia. The aim of the project is to adjust and develop the exercise and sports tracks of Estonia to ensure the availability of the year-round and free of charge possibility for active exercise in nature for all interested people and popularise the sporty lifestyle.

From 2005 to 2015, SA Eesti Terviserajad (Estonian Health Trails Foundation) invested, with its founders' support, a total of EUR 3.9 million into developing recreational trails. The investments were made into all Estonian counties, with the biggest ones in Harju County, Tartu County and Ida-Viru County. Based on the preferences of the population in the respective locations of the trails and level of active use, the biggest investments were made into the facilities and tracks at Piritä and Nõmme-Harku in Tallinn, and Kõrvemaa and Jõulumäe.

The total investment made in 2014-2015 period (includes not only the SA Eesti Terviserajad's investments but state and local government investments and support from the European Union) into the development of the Estonian recreational trails network is around EUR 34.5 million. Of the counties, Harju County, Ida-Viru County, Põlva County and Viljandi County have received the most investments.

As a result of the ten years of work, Estonia now has 101 health trails all over the country and 1,000 km of paths and exercise tracks, of which soft-surfaced tracks make up 800 km, hard-surfaced paths account for 200 km and illuminated paths or tracks make up around 200 km. Estonia has an average of 59.8 km of maintained tracks and 15.4 km of illuminated tracks per 100,000 people. They are visited approximately four million times per year.

To simplify navigation for the trail users, 56 large-format maps were installed and 52 trails use markings designed and installed by the foundation. All over Estonia 28 stretching walls have been installed for warm-up and cool-down stretching after exercise. As of the present date, the foundation has also produced about 50 Estonian and Russian language instructional videos. The first four indoor recreational trails were established this year in buildings used by various Estonian companies and organizations. The objective of the indoor tracks is to emphasize the importance of regular exercise and to promote such activity indoors as well.

For many years, Merko has supported Estonian skiing with the goal of contributing to development of top athletes and, on their example, to encourage more people in Estonia to engage in sport and exercise. Merko was the cooperation partner for the Estonian Ski Association for 10 years, supporting the national Nordic skiing team and youth team.

In 2015, Merko became the first major sponsor of the non-profit Team Haanja, founded at the initiative of eight skiers. The goal is to take new athletes to the top of the international rankings and keep veteran skiers competitive, contributing to fostering conditions for training in line with contemporary requirements. Team Haanja is made up of eight athletes: national team members Triin Ojaste, Algo Kärp, Raido Ränkel, Aivar Rehema and Karel Tammjärv and the U23/youth team members Marko Kilp, Alvar Johannes Alev and Andreas Veerpalu.

From 2015, Merko is again supporting Estonian tennis. As a gold sponsor of the Estonian Tennis Association, Merko is focusing on support for organizing top tennis and international tournaments, including investing into the development of the top men's tennis player, Jürgen Zopp, and the Merko Estonian Open held in Pärnu in the summertime.

In Latvia, SIA Merks, a subsidiary of the group, has supported the Rīga Stradiņš university women's basketball team since 2001.



THERE ARE OVER HUNDRED HEALTH TRACKS ALL OVER ESTONIA.



RODE ALTARPIECE AT THE ST. NICHOLAS MUSEUM.

In the field of culture, Merko Ehitus has provided support since 2014, for the major project at the St. Nicholas Museum, "Rode Altarpiece in Closeup", focusing on the conservation of the grand late medieval retable of the main altar. This is one of the grandest and best-preserved late medieval northern German panelled altars anywhere in Europe. It came to Tallinn in 1481 and has been in its position for over 500 years. Over 6 metres wide and close to 3.5 metres high when fully open, the conservation work can be witnessed on the spot at the museum. The project runs from 2014 to 2016.

To support the field of architecture, Merko entered into a five-year cooperation agreement with the Estonian Union of Architects, which each year hands out the annual prize to an architect to recognise one outstanding work of architecture and the architect responsible for it. The EUR 5,000 award is contributed by AS Merko Ehitus. To ensure that the winning work is not just extraordinary in the Estonian cultural context but also strike international audiences as distinctive and innovative, the competition entries are judged by an international jury. At this year's gala held at the Culture Hub in Tallinn, Peeter Pere was named the winner of the first instalment of this annual award for his work in designing a private home and outbuildings in Tartu County. As a company that carries out the work of architects on a daily basis, it's an honour for Merko to contribute to recognizing their work.

In Lithuania, the group's subsidiary UAB Merko Statyba supported various projects to improve social infrastructure in the city of Vilnius, as part of which construction and maintenance of nursery schools and preschools was supported and public transport was developed. In addition, UAB Merko Statyba also contributed to supporting the field of architecture.

Merko has a successful partnership since 2007 with Tallinn University of Technology for the objective of developing education in the field and train the next generation. In November 2013, AS Merko Ehitus Eesti signed a new cooperation agreement with the Development Fund of Tallinn University of Technology until 2016 for sponsoring TUT students and academic staff with eponymous scholarships. A EUR 3,300 scholarship is awarded in construction specialities to a young lecturer/scientist up to 40 years of age, possessing a Doctoral level degree, in TUT and there is also another scholarship for EUR 2,000 awarded to a successful student of the third, fourth or fifth year in the Faculty of Civil Engineering, in TUT. In 2015, the scientist's scholarship was awarded to TUT Faculty of Civil Engineering doctoral student Raido Puust professor Hendrik Voll, Head of the heat and ventilation Department at TUT and the engineering scholarship was awarded to Kristel Tamm, a fifth year student of the heat and ventilation department at TUT.



TÕNU TOOMIK, MEMBER OF THE MANAGEMENT BOARD OF AS MERKO EHITUS, CONGRATULATING PEETER PERE, THE WINNER OF THE ESTONIAN UNION OF ARCHITECTS' ANNUAL AWARD.

RECOGNITIONS

In 2015, the activities of AS Merko Ehitus were recognised in the form of the following prizes:

BALTIC MARKET AWARD 2014

At an award gala held in the first quarter of 2015 – the Baltic Market Awards 2014 – NASDAQ Baltic stock exchanges announced the companies of the year with the best investor relations. The goal of the competition was to raise the general level of investor relations among listed companies by recognizing the ones that stood out during the year with first-class investor relations. In 2014, the publicly listed companies received awards in five categories; in addition, the year's best stock exchange member was selected. AS Merko Ehitus received third place in the main category "The Best Investor Relations in the Baltic Countries" and second place in the category "The Best Interactive Investor Relations".



MERKO EHITUS
Best Interactive
Investor Relations
2ND PLACE
Best Investor Relations
in the Baltic Market
3RD PLACE

CONCRETE CONSTRUCTION OF THE YEAR 2014

AS Merko Ehitus Eesti was awarded the constructor prize for the second year in a row at the esteemed Concrete Construction of the Year 2014 contest – a recognition for the construction and concrete works of Tondiraba ice arena. The contest is organised annually by the Estonian Concrete Association and the Association of Construction Material Producers of Estonia.

The Concrete Construction of the Year competition, this year held for the 15th time, was launched to inform the wider public of the many uses of concrete and to recognise those who have used this domestic building material – versatile and mouldable concrete – to bring their ideas to life. This year, thirteen entries were submitted to the competition. Concrete constructions as well as structures and processes utilised in them delivered to the contracting party in 2014 were eligible for entry in the competition.

EUROMONEY – REAL ESTATE SURVEY 2015

In its real estate market survey for 2015, Euromoney – the world's leading business

and investment magazine – declared AS Merko Ehitus the best real estate developer in Estonia. Merko also received top spot in the category of residential real estate developers in Latvia. Merko Ehitus was awarded the Euromoney's Estonia's best real estate developer recognition also in 2012 and 2014.

The Real Estate Survey 2015 is the eleventh survey conducted by Euromoney, a financial magazine published from 1969, with the aim of ranking the best in real estate on the basis of the market data, as well on the evaluations by other market participants and specialists in the field – participants and evaluators include consultants, developers, investors, banks, business customers and end users from more than 60 countries. The respondents were asked which companies of the relevant market they see as standing out in the last 12 months as the best providers of products and services in the real estate sector.

THE ENTREPRENEURSHIP AWARD 2015

AS Merko Ehitus was granted The Most Competitive Construction Enterprise award for the fourth year in a row and additionally The Most Competitive Large-Scale Enterprise award at the annual Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.

The webpage of the entrepreneurship competition at <http://www.ettevotluskonkurss.ee/en> contains an overview of the winners and a recording of the transmission of the award gala evening.

The best of the Estonian Companies' Competitiveness Ranking compiled by the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation are determined among large enterprises, small and medium-sized enterprises and micro-enterprises. In addition, rankings are compiled in 11 areas: retail, wholesale, industry and energy, food industry, construction, communications and IT services, transport and logistics, architecture and real estate service, tourism, financial brokerage and business services.





TONDIRABA ICE ARENA – CONCRETE CONSTRUCTION OF THE YEAR 2014.

BALTIC MARKET AWARD 2015

At an award gala held in the first quarter of 2016 – the Baltic Market Awards 2015 – NASDAQ Baltic stock exchanges announced the companies of the year with the best investor relations. The goal of the competition was to raise the general level of investor relations among listed companies by recognizing the ones that stood out during the year with first-class investor relations. In 2015, the publicly listed companies received awards in five categories; in addition, the year's best stock exchange member was selected. AS Merko Ehitus received third place in the main category "The Best Investor Relations in the Baltic Countries" for the second year in a row and second place in the category "The Best Annual and Corporate Governance Report".



MERKO EHITUS

Best Annual and Corporate
Governance Report

2ND PLACE

Best Investor Relations
in the Baltic Market

3RD PLACE

THE BIGGEST PAYER OF WORKFORCE TAXES IN THE CONSTRUCTION SECTOR IN 2015

At a ceremony held in February 2016 at Stenbock House, the seat of national government, Estonian Prime Minister Taavi Rõivas and Tax and Customs Board director general Marek Helm thanked the largest taxpayers and exporters among the private business community. One of the criteria for selection was exemplary tax adherence. AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, won recognition for having paid the most workforce taxes of any company in the construction sector.

A HIGH POSITION IN THE COUNTRY'S MOST ATTRACTIVE EMPLOYER RANKINGS

CV Keskus's annual survey drew on nearly 6,000 respondents all over Estonia to compile its rankings of the country's best employers. The company job-seekers most want to work for was Eesti Energia. AS Merko Ehitus Eesti rose from the 27th in 2014 to 17th in 2015.



DESIGN AND RENOVATION WORKS OF THE INFRASTRUCTURE OF TALLINN TRAM LINE NO. 4 COMPLETED IN 2015.

REPORT ON GOOD CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Good Corporate Governance is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the NASDAX Tallinn Stock Exchange are recommended to adhere to the principles of Good Corporate Governance approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2015.

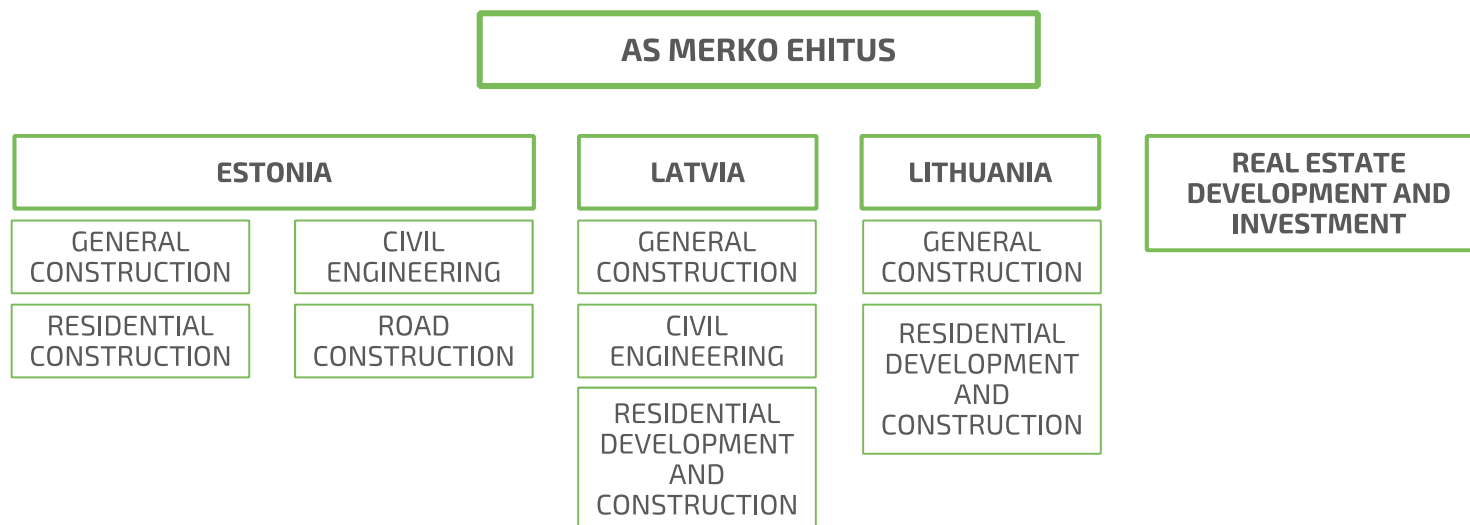
AS Merko Ehitus is dedicated to following high standards of corporate governance, for the implementation of which the Management Board and the Supervisory

Board are responsible for shareholders. Our objective is to be transparent in our economic activity, in disclosing information and in relations with shareholders.

AS Merko Ehitus operates as a holding company whose companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development. In the construction sector, the group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum effectiveness in group management, we in some cases differentiate the management structure and legal structure. The group's management is carried out on a country basis. The groups country and business area detailed management structure as at 31 December 2015 is the following:



GROUP'S LEGAL STRUCTURE

As at 31 December 2015, the group comprises 43 companies (31.12.2014: 47). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 18 and 19 of the financial statements.

CHANGES IN THE LEGAL STRUCTURE OF THE GROUP

On 22 December 2014, AS Merko Ehitus initiated a process to merge its fully owned subsidiaries OÜ Metsailu, OÜ Ringtee Tehnopark, OÜ Maryplus and OÜ Constancia, all engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is OÜ Metsailu. The companies being acquired will be merged into OÜ Metsailu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and OÜ Metsailu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus will remain the sole shareholder in OÜ Metsailu, the acquiring company. The closing date of the merger was 1 January 2015 after which all transactions of the acquirees have been deemed to have been made on account of the acquirer. The final merger entry in the Commercial Register was made on 3 July 2015.

On 5 February 2015, Oy Merko Finland, fully owned subsidiary of AS Merko Ehitus, made a monetary contribution in the amount of EUR 2,250 to form a 75%-owned subsidiary Hartian Oy. The total share capital of the subsidiary is EUR 3,000. The company was formed with the aim of acquiring a residential quarter, construction rights for 10 private houses, in Pestikuja 1, Helsinki.

On 4 March 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a process to merge its 66% subsidiary AS Merko Tartu, engaged in construction, and Raadi Kortermaja OÜ, fully owned subsidiary of AS Merko Tartu engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is AS Merko Tartu. The company being acquired will be merged into AS Merko Tartu and as a result of the merger the company being acquired will wind up without liquidation proceedings and AS Merko Tartu will become the legal successor of the company being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain a 66% shareholder in AS Merko Tartu, the acquiring company. The closing date of the merger will be 1 April 2015 after which all transactions of the acquiree have been deemed to have been made on account of the acquirer. The final merger entry in the Commercial Register was made on 15 April 2015.

On 4 March 2015, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas, in the course of which a 100% subsidiary UAB Kražiu Projektas will be split from the company for the purpose of later merging it with AS Merko Ehitus's 100% subsidiary UAB Merko Statyba.

On 20 March 2015, Hartian Oy, a 75%-owned subsidiary of Oy Merko Finland, fully owned subsidiary of AS Merko Ehitus, made a monetary contribution in amount of EUR 2,500 into the share capital of a newly formed 100%-owned subsidiary Asunto Oy Helsingin Pestikuja 1, which will develop and maintain the residential quarter in Pestikuja 1.

On 25 March 2015, a 100% subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti and E.L.L. Kinnisvara AS entered into an agreement on the acquisition of a 100% holding in OÜ Rannamõisa Kinnisvara with a share capital of EUR 2,556. E.L.L. Kinnisvara AS is a company controlled by AS Riverito. 71.99% of the shares of AS Merko Ehitus are owned by AS Riverito. OÜ Rannamõisa Kinnisvara is a company engaged in development of real estate, which owns registered immovable properties in Tallinn at Rannamõisa Road and Kaeravälja Street with a total area of approximately 35 thousand m². The purpose of the acquisition of the holding by AS Merko Ehitus Eesti is to develop the properties in question and sell them to a third party. The price of the 100% holding is EUR 3,261,350, which is to be paid to the seller after the transfer of immovable properties belonging to OÜ Rannamõisa Kinnisvara to the third parties but no later than 30 June 2016. In addition, the Parties have entered into an agreement on an option to resell the 100% holding, which gives AS Merko Ehitus Eesti the right to resell the holding for the price that has been paid by the moment of the resale, plus the cost of acquisition of immovable properties acquired by OÜ Rannamõisa Kinnisvara during the time it was held by AS Merko Ehitus Eesti, in case such immovable properties are acquired. The expiration date of the put option is 29 June 2016.

On 19 May 2015, the shareholders of the AS Merko Ehitus Eesti, part of AS Merko Ehitus group, subsidiary AS Merko Tartu, decided to approve a notarized division plan signed on 14 May 2015, under which the division of AS Merko Tartu will be accomplished by way of demerge. In the course of the division, AS Merko Tartu will transfer EUR 1,026 thousand in net assets to the acquiring company OÜ Ignatsi (foundation in progress). The purpose of the division of AS Merko Tartu is re-arranging the structure of the group companies and ownership relations with AS Merko Tartu minority shareholder.

The principal area of activity of the AS Merko Tartu is general contracting of construction in the southern part of Estonia, and real estate development in Tartu county and city, where the company owns various immovable properties with development potential. Following the separation of the minority holding in

AS Merko Tartu by way of demerge, the principal area of activity of the company will be changed to only real estate development. Prior to the division, AS Merko Tartu is owned by AS Merko Ehitus Eesti and Margus Kull respectively 66% and 34%. As a result of the division, the 4,000 no-par-value shares of AS Merko Tartu held by Margus Kull will be cancelled and the share capital of AS Merko Tartu will accordingly be reduced by EUR 27 thousand under simplified procedure to EUR 53 thousand. After the reduction of the share capital of AS Merko Tartu, the share capital of AS Merko Tartu will be EUR 53 thousand and the sole shareholder of AS Merko Tartu will be AS Merko Ehitus Eesti. AS Merko Tartu shareholder Margus Kull will become the sole shareholder of OÜ Ignatsi and will receive, in exchange for the 4,000 no-par-value shares of AS Merko Tartu, a share in OÜ Ignatsi with a par value of EUR 2.5 thousand. AS Merko Tartu shareholder AS Merko Ehitus Eesti will not acquire a holding in OÜ Ignatsi as a result of the demerge. As a result of the division of AS Merko Tartu, the transaction will have an estimated EUR 3 thousand loss influence on the consolidated results of AS Merko Ehitus group, a decreasing influence on assets of EUR 987 thousand and an increasing influence on liabilities of EUR 39 thousand. The final division entry in the Commercial Register was made on 23 July 2015. Post completion a monetary payment in the amount of EUR 41 thousand was processed according to the division plan.

On 4 March 2015, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas, a process that was partially carried out in Q2 2015. In accordance with the restructuring plan, AS Merko Ehitus founded on 14 May 2015 a 100% subsidiary in Lithuania called UAB Kražiu valdymas with share capital of EUR 2,896, which under an instrument of delivery and receipt of assets signed on 18 May 2015 took control of the assets transferred from UAB Merko Bustas by division, including a 100% holding in UAB Kražiu Projektas. The restructuring was completed on 1 September 2015, when UAB Kražiu valdymas and UAB Kražiu Projektas were merged with AS Merko Ehitus's 100% subsidiary UAB Merko Statyba and the final merger entry in the Commercial Register was done.

On 31 July 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a process to merge its 100% subsidiary Tallinna Teede AS, engaged in road construction and maintenance, and Tevener OÜ, fully owned subsidiary of Tallinna Teede AS engaged in mining, in order to have savings in administrative cost related to company management. The acquiring company is Tallinna Teede AS. The company being acquired will be merged into Tallinna Teede AS and as a result of the merger the company being acquired will wind up without liquidation proceedings and Tallinna Teede AS will become the legal successor of the company being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain the sole shareholder in Tallinna Teede AS, the acquiring company. The closing date of the merger was 1 August 2015 after which all transactions of the acquiree have

been deemed to have been made on account of the acquirer. The final merger entry in the Commercial Register was made on 14 September 2015.

On 11 December 2015, the shareholders of OÜ Unigate, a 50%-owned joint venture of AS Merko Ehitus, resolved to increase the nominal value of the share of the joint venture by EUR 2 to EUR 6 thousand with the aim of bringing the company's share capital into line with the requirements arising from the Commercial Code. A monetary contribution of EUR 355 thousand was made by both shareholders, with the nominal value of the share capital amounting to EUR 1 and the share premium to EUR 354.9 thousand.

On 22 December 2015, AS Merko Tartu, a 100% subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, signed an agreement for the transfer of its entire 50% holding in the joint venture Kortermaja OÜ for the sales price of EUR 0,4 thousand and earning a loss of EUR 2 thousand. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant companies. The 100% subsidiary in the Kingdom of Norway, Merko Investments AS (registry code 916 750 323) was founded in February 2016 and, on 17 February, entered into the register. The share capital of the new subsidiary is NOK 30,000 (about EUR 3,200). This is a technical step aimed at creating the legal platform for launching operations in Norway.

On 7 March 2016, Merko Investments AS, part of AS Merko Ehitus group, signed contracts with Norwegian companies SDV Holding AS and Aucon AS to acquire 56% stake in Norwegian construction company Peritus Entreprenør AS. Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. Peritus Entreprenør AS (www.peritus-entreprenor.no) is a Norwegian construction company, offering general construction services, with the sales turnover of approximately 7 million euros in 2015. The former owners will continue to participate in the daily management of the company and they keep their 44% stake. The aim of the acquisition is to start offering construction services on Norwegian market.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company. The general meeting of shareholders decides, among others, the appointment and recall of members of the Supervisory Board, appointment of the auditor and approval of the results of the financial year, the payment of dividends. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

The general meeting of the shareholders was held on 29 April 2015. The general meeting resolved to approve the annual report and the profit allocation proposal for 2014. The dividends in the sum of EUR 7.3 million (EUR 0.40 per share) were paid out to shareholders on 26 May 2015.

In addition, the annual general meeting resolved to reduce the share capital by EUR 4 071 000 (EUR 0.23 per share). The monetary payments to the shareholders in the amount of EUR 4.1 million (EUR 0.23 per share), related to the reduction of share capital was made on 16 November 2015.

In addition the general meeting of shareholders decided to appoint AS PricewaterhouseCoopers the auditor of AS Merko Ehitus for the financial years of 2015 through 2017 and to pay to the auditing company for auditing as per contract to be entered into with AS PricewaterhouseCoopers.

The Management Board made a presentation on the company's financial results and future prospects.

In accordance with the Commercial Code, its Articles of Association and Good Governance Code, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through the Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper at least 3 weeks in advance. The general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

Before their publication, agendas at annual and extraordinary general meetings of the company's shareholders are approved by the Supervisory Board that shall also present to the general meeting subjects for discussion and voting. Agenda items of the general meeting, recommendations of the Supervisory Board with relevant explanations, procedural guidance for participation in the general meeting and how and when new agenda items can be proposed are published together with the notice on calling the general meeting.

General meetings can be attended by any shareholder or his or her authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication equipment since the deployment of reliable solutions for the identification of shareholders some of whom live abroad, while ensuring the privacy of participating shareholders, would be too complicated and costly. No picture taking or filming is allowed at the general meeting, because it may disturb the privacy of shareholders.

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2015, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

On behalf of the company, usually the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. If necessary, the company's auditor shall participate.

The annual general meeting of shareholders of AS Merko Ehitus held in 2015 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Signe Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

SUPERVISORY BOARD

The Supervisory Board shall plan the activities of the company, organise the management of the company and supervise the activities of the Management Board. The Supervisory Board shall notify the general meeting of shareholders of the results of a review. The Chairman of the Supervisory Board organises the work of the Supervisory Board. The main duties of the Supervisory Board are to approve the group's material strategic and tactical decisions and to supervise the activities of the group's Management Board. The Supervisory Board's actions are guided by the company's articles of association, guidelines of the general meeting and law. According to the Articles of Association of Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.



TOOMAS ANNUS (55)
CHAIRMAN OF THE
SUPERVISORY BOARD

Positions held:

2011-... AS Merko Ehitus, Chairman of the Supervisory Board
2014-... E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
2009-2014 E.L.L. Kinnisvara AS, Member of the Management Board
2008-... AS Järvevana, Chairman of the Management Board
1999-2009 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
1997-2008 AS Merko Ehitus, Chairman of the Supervisory Board
1996-... AS Riverito, Chairman of the Management Board
1991-1996 AS EKE Merko, Chairman of the Management Board
1989-1991 EKE MRK, director of the company

Education:

Tallinn University of Technology, industrial and civil engineering
Tallinn Technical School of Building and Mechanics, industrial and civil engineering

Number of shares: 8,322,914 (AS Riverito)



INDREK NEIVELT (48)
MEMBER OF THE
SUPERVISORY BOARD

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
2015-... AS Pocopay, Member of the Management Board
Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the Group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.

Belongs to Supervisory Boards of various companies.

Education:

Tallinn University of Technology, civil engineering economics and management.

Stockholm University, banking and finance, MBA

Number of shares: 31,635 (Trust IN OÜ)



TEET ROOPALU (66)
MEMBER OF THE
SUPERVISORY BOARD

Positions held:

2004-... AS Merko Ehitus, Member of the Supervisory Board
2010-... AS Riverito, Member of the Management Board
2003-... E.L.L. Kinnisvara AS, Member of the Supervisory Board
2008-... AS Järvevana, Member of the Supervisory Board
2002-2004 AS Merko Ehitus, Adviser to the Management Board

Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.

Member of Supervisory Boards of subsidiaries.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -



OLARI TAAL (62)
MEMBER OF THE
SUPERVISORY BOARD

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).

Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).

Belongs to Supervisory Boards of various companies.

Education:

Tallinn University of Technology, civil engineering.

Number of shares: 2,500 (Eggera OÜ)

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2015, the Supervisory Board held 12 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	12	100%
Teet Roopalu	12	100%
Indrek Neivelt	10	83%
Olari Taal	12	100%

The Supervisory Board fulfilled all its obligations laid down in legal acts. The Supervisory Board has set up an audit committee as its work body. The Supervisory Board has not considered it necessary to set up a remuneration committee or appointment committee. Remuneration of the members of the Supervisory Board is approved by the general meeting of shareholders. The valid procedure for remuneration of Supervisory Board members was approved by the general meeting of shareholders held at 31 October 2008.

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2015 and 2014 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2015	2014
Toomas Annus	42,182	42,182
Teet Roopalu	38,347	38,347
Indrek Neivelt	38,347	38,347
Olari Taal	38,347	38,347
TOTAL	157,223	157,223

Remuneration, less the statutory taxes, to the members of the Supervisory Board is paid on a monthly basis.



AS A RESULT OF THE DESIGN AND RENOVATION OF THE INFRASTRUCTURE OF TALLINN TRAM LINE NO.4, THE PEOPLE IN TALLINN ARE SERVED BY THE NEW TRAMS.

MANAGEMENT BOARD

The Management Board is a governing body which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of all shareholders and ensures the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a month, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

Pursuant to the Articles of Association approved at the general meeting of shareholders in 2012, the Management Board may have up to three members. AS Merko Ehitus has a two-member Management Board: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

The responsibilities of Andres Trink, Chairman of the Management Board, include, among others, fulfilling daily obligations of the CEO of AS Merko Ehitus, managing and representing the company, ensuring compliance with the Articles of Association, legal acts, organising the work of the Management Board and supervisory boards of the more important subsidiaries, coordinating the development of strategies and providing for their implementation, being responsible for business development and finance. Tõnu Toomik is responsible for the management of the portfolio of properties and coordination of construction segment development activities across the whole group.

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are approved by the Supervisory Board. The members of the Management Board are paid a fee for fulfilling their official duties. Bonuses payable to the Management Board depend on the fulfilment of the targets of the given financial year by the group and the Management Board.



ANDRES TRINK (48) CHAIRMAN
OF THE MANAGEMENT BOARD
APPOINTED: 1 JANUARY 2012
TERM ENDS: 1 JANUARY 2018

Positions held:

2012-... AS Merko Ehitus, Chairman of the Management Board
Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks and UAB Merko Statyba.

Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a Member of the Management Board of Baltic banking at Hansapank (now Swedbank).

Education:

Tallinn University of Technology, automated management systems engineering (summa cum laude).

Estonian Business School, international business administration.

Graduate of the INSEAD University (France), executive management programme.

Number of shares: 100



TÕNU TOOMIK (54) MEMBER
OF THE MANAGEMENT BOARD
APPOINTED: 6 JUNE 2013
TERM ENDS: 5 JUNE 2016

Positions held:

2013-... AS Merko Ehitus, Member of the Management Board

2014-... E.L.L. Kinnisvara AS, Member of the Supervisory Board

2011-2013 AS Merko Ehitus, Member of the Supervisory Board

2009-2014 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board

2008-2011 AS Merko Ehitus, Chairman of the Supervisory Board

2008-... AS Järvevana, Chairman of the Supervisory Board

1999-2009 E.L.L. Kinnisvara AS, Member of the Supervisory Board

1997-1999 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board

1997-2008 AS Merko Ehitus, Chairman of the Management Board

1996-... AS Riverito, Member of the Management Board

1993-1996 AS EME Merko, Estonian Regional Director

1993-1993 AS EKE Merko, Project Manager

Member of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks and UAB Merko Statyba.

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares: 1,607,185 (AS Riverito)

The members of the Management Board are paid bonuses once a year based on the fulfilment of the targets of the previous financial year.

Gross service fees calculated to the members of the Management Board in the financial year 2015 totalled EUR 549 thousand (financial year 2014: EUR 538 thousand).

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

Authorisation and responsibility of supervisory boards of subsidiaries of AS Merko Ehitus are based on their Articles of Association and intergroup rules. Generally, Supervisory Boards of subsidiaries consist of members of the Management Board and Supervisory Board of the company that is the main shareholder of the specific subsidiary. Supervisory Board meetings of the most significant subsidiaries are held usually once a month, otherwise according to the group's needs, Articles of Association of subsidiaries and legal provisions. Generally, no separate fee is paid to members of the Supervisory Board of subsidiaries. Members of the Supervisory Board will also receive no termination benefit in case their contract of service is terminated before due date or not extended.

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2015:

COMPANY *	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti (29,005,283 euros)	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Toomas Aak	Tiit Roben (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra (7,762,908 euros)	Tiit Roben (Chairman), Veljo Viitmann, Mihkel Mugur	Arno Elias (Chairman), Tarmo Pohlak, Boris Tehnikov
Tallinna Teede AS (12,856,529 euros)	Tiit Roben (Chairman), Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments (21,582,191 euros)	-	Andres Trink, Signe Kukin
SIA Merks (19,812,602 euros)	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments (41,214,716 euros)	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba (3,120,088 euros)	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Metsailu (5,695,407 euros)	-	Tiit Kuusik, Ines Prual

* The figure in brackets indicates the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2015.

On 17 March 2015, the Management Board of AS Merko Ehitus decided to extend the powers of the Members of the Supervisory Board of UAB Merko Statyba, Andres Trink, Tõnu Toomik and Signe Kukin for three years, i.e. from 13 April 2015 until 12 April 2018. The Supervisory Board of UAB Merko Statyba will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

On 20 April 2015, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Members of the Supervisory Board of subsidiary Tallinna Teede AS, Mr. Tiit Roben, Mr. Veljo Viitmann and Mr. Alar Lagus according to the statutes for the three years tenure, i.e. till 15 April 2018. The Supervisory Board of Tallinna Teede AS will continue with three members: Mr. Tiit Roben (The Chairman), Mr. Veljo Viitmann and Mr. Alar Lagus.

On 9 December 2015, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Member of the Management Board, Mr. Jüri Helila for three years, i.e. from 5 January 2016 till 4 January 2019. The Management Board of Tallinna Teede AS will continue in a former two-member panel: Mr. Jüri Läll (The Chairman) and Mr. Jüri Helila.

On 21 January 2016, the Supervisory Board of SIA Merks – part of AS Merko Ehitus group – decided to extend the powers of the Members of the Management Board, Mr. Oskars Ozoliņš and Mr. Janis Šperbergs for three years, i.e. from 2 February 2016 till 1 February 2019. The Management Board of SIA Merks will continue in a former two-member panel: Mr. Oskars Ozoliņš (The Chairman) and Mr. Janis Šperbergs.

On 10 March 2016, the Management Board of AS Merko Ehitus decided to change the composition of the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group. Mr. Toomas Aak will leave the Supervisory Board of AS Merko Ehitus Eesti and the Supervisory Board will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Teet Roopalu.

Remuneration paid to the members of the Management Boards of significant subsidiaries is provided in Note 33 of the financial statements.

AUDIT COMMITTEE

The Supervisory Board of AS Merko Ehitus has formed an audit committee as its work body. The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision over the whole group (incl. subsidiaries): a) arrangement of accounting, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities. Subsidiaries have not formed audit committees.

As at 10 January 2011, the company's Supervisory Board set up a 3-member audit committee and appointed Indrek Neivelt and Olari Taal as its members and Teet Roopalü as its Chairman. A member of the committee is elected for a term of three years, but at the decision of the Supervisory Board, a member of the committee may be recalled before the expiration of their term of office.

Members of the auditing committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

Availability of adequate and timely information is the basis for obtaining quality management decisions. It is important to ensure that reporting is factual, but also forward-looking. This will enable to manage, to the best of one's knowledge, risks and, in competition with other market operators, turn them into opportunities. The company's reporting can be roughly divided into: a) financial reporting and b) management reporting.

Financial reporting consists of interim reports of consolidated economic indicators and annual reports of companies that belong to the AS Merko Ehitus group, that are made public through the stock exchange system of NASDAQ Tallinn and that are available to all shareholders, potential investors and analysts covering the company.

On the other hand, management reporting is meant for the company's internal use. It is appropriate to separate reporting on various operating indicators that focuses on the performance of business segments and different group companies as well as return on equity. The refinement of reporting is a continuous process during which indicators affecting the achievement of agreed objectives are reviewed. Management reporting includes budgets and forecasts that AS Merko Ehitus does not disclose.

Financial audits are conducted on the basis of International Standards on

Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. As a result of the tender and with the resolution made by the general meeting in 2015, the financial auditor for annual reports of 2015-2017 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Ago Vilu is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid of conflicts of interest. In 2015, PwC did not perform to AS Merko Ehitus services that could have affected the independence of the auditor. We find that the financial audit was conducted in 2015 in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the opinion is issued.

In 2015, the fees for financial audit of AS Merko Ehitus group amounted to EUR 97 thousand (2014: EUR 109 thousand) and for other counselling services (incl. tax advisory and IS consultations) to EUR 19 thousand (2014: EUR 7 thousand).

CONFLICT OF INTERESTS AND HANDLING OF INSIDER INFORMATION

It is important to appropriately handle insider information in order to protect shareholders' interest and ensure honest and fair trading of shares. Significant information about AS Merko Ehitus and its subsidiaries must be available in a timely, consistent and equal manner for all shareholders and potential new shareholders. It is inevitable that persons related to AS Merko Ehitus and its subsidiaries have, because of their job, at certain times and in certain cases more information about the group than investors and the public. To prevent the misuse of such information, we have adopted internal rules in the group's companies on maintaining and publication of insider information and on making transactions on the basis of insider information (hereinafter: insider information rules). Insider information rules include a reporting system under which employees who may develop a conflict of interest when fulfilling their job duties are required to disclose their economic interests and confirm their independence by self-assessment.

The members of the Management and Supervisory Board of AS Merko Ehitus are users of insider information (so-called insiders). They have signed a relevant statement, are aware of insider information rules of AS Merko Ehitus and together with people connected with them are registered in the list of

the company's insiders. Moreover, the list of insiders includes the financial employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

As at 31 December 2015, the company's insider register lists 60 persons with permanent access (31.12.2014: 46 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act and NASDAQ Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2015 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms.

OWNERSHIP INTERESTS OF AS MERKO EHITUS MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD (OVER 5%) IN OTHER COMPANIES

NAME	RELATED COMPANY
Toomas Annus	AS Riverito, Kardispordi Arendamise OÜ, AS Eesti Elecster, Kemtal OÜ, Kemtal Grupp OÜ, Audrupark OÜ
Teet Roopalu	Teet Konsult OÜ
Indrek Neivelt	Trust IN OÜ
Olari Taal	Eggera OÜ
Andres Trink	None
Tõnu Toomik	AS Riverito

No members of the company's supervisory or management board hold shares in an entity that operates in the core business area of AS Merko Ehitus – construction sector.

An overview of transactions with related parties in 2015 is provided in Note 33 of the financial statements.

DISCLOSURE OF INFORMATION

In disclosing information, AS Merko Ehitus shall follow Estonian law, the rules and regulations of NASDAQ Tallinn Stock Exchange and guidelines of the Financial Supervision Authority of Estonia and immediately disclose important information regarding the company's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the company and its business partners.

The group has adopted an information disclosure procedure that describes the main policies in communication with investors and the public. The objective of the information disclosure procedure is to ensure access to adequate and yet accurate information about the group and its operations that will form the basis for the price of the securities issued by the company.

Information will be disclosed without undue delay and impartially. The main principles of information disclosure of Merko Ehitus are consistency, impartiality, transparency, truthfulness and preventive approach.

The group discloses information about its financial condition and strategy in its financial statements, annual report and interim reports pursuant to the schedule that has been set. The disclosure dates of each next financial year will be announced before the end of the previous financial year.

Merko immediately discloses all decisions, issues and events that in the company's view may significantly change the price of the securities issued by the company and that are to be disclosed pursuant to laws and regulations. Stock exchange releases are published in Estonian and English.

Stock exchange releases are always published regarding the following subjects:

- financial statements, interim reports;
- amendment to previously published strategies and financial objectives;
- profit warnings;
- major projects and construction contracts;
- major investments and financial arrangements;
- significant corporate reorganisations and partnership agreements;
- significant reorganization, streamlining or discontinuation of functions or operations;
- management board's proposals to the annual general meeting and resolutions adopted in the annual meeting;
- significant legal actions, legal proceedings or actions of the authorities.

From 13 March 2014, information about projects is disclosed in the form of stock exchange notice if contract value exceeds EUR 3 million excluding VAT (until 12.03.2014: for contracts valued over EUR 5 million) and in case of public procurements without the customer's reserve (price limit subjected to construction contracts by Merko). Generally, Merko will only make disclosures about awarded contracts, i.e. information is disclosed after the contract is signed. We emphasize the fact that the said EUR 3 million limit is not absolute but a criterion for making it easier for investors to understand which projects Merko covers in its press releases sent via the stock exchange information system. In certain cases, there may be a need to send out press releases via the stock exchange information system on contracts smaller than that amount, if these exert a significant influence on the price of the company's securities or are relevant to current and prospective investors.

Important information shall be disclosed through the stock exchange system and on the company's website. In 2015, AS Merko Ehitus published 42 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
14	New construction contracts
10	New development projects
5	Operating results
2	Acquisition of new properties
5	Changes in structure and management
2	General meeting
4	Other releases

We will publish 2016 consolidated interim reports as follows:

DATE	EVENT
05/05/2016	2016 3 months and I quarter unaudited interim report
04/08/2016	2016 6 months and II quarter unaudited interim report
03/11/2016	2016 9 months and III quarter unaudited interim report
09/02/2017	2016 12 months and IV quarter unaudited interim report

In 2016, reports will be published before the start of the trading day, at 8 am local Estonian time (EET). Annual accounts of subsidiaries are not generally published, but they can be obtained, if necessary, from AS Merko Ehitus or the local Commercial Registries.

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market operators. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts.

It is our responsibility to prepare quarterly and annual reports, stock exchange releases and presentation and to plan and organise investor meetings with shareholders and analysts. We also collect and analyse feedback from investors and analysts in order to increase the value of information to be disclosed.

The company shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting (interim reports, annual report). AS Merko Ehitus communicates regularly with its larger shareholders and potential investors and, if requested, holds meetings. The information presented in these meetings is public, i.e. available from the company's reports, website or other public sources. We carefully monitor insider information rules during these meetings.

The investor calendar published on the AS Merko Ehitus website <http://group.merko.ee/en/investors/investor-calendar/2016-01/> provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2015, AS Merko Ehitus organised 23 investor meetings (2014: 22) including 2 investor tours (2014: 3).

For informing the company's shareholders an annual general meeting of shareholders is called at least once a year where all shareholders can ask questions from members of the company's Management Board and Supervisory Board.

The main analysts who cover AS Merko Ehitus are:

SWEDBANK AS	SEB ENSKILDA	AS LHV PANK
Liivalaia 8, 15040 Tallinn, Estonia	Tornimäe 2, 15010 Tallinn, Estonia	Tartu mnt 2, 10145 Tallinn, Estonia
phone +372 631 0310	phone +372 665 5100	phone +372 680 0457
e-mail info@swedbank.ee	e-mail info@seb.ee	e-mail research@lhv.ee
www.swedbank.ee	www.seb.ee	www.lhv.ee

Information on investor relations of AS Merko Ehitus is available from:

ANDRES TRINK	SIGNE KUKIN	AS MERKO EHITUS
Chairman of the Management Board	Group Chief Financial Officer	Delta Plaza, 7th Floor
phone +372 650 1250	phone +372 650 1250	Pärnu mnt 141, 11314 Tallinn, Estonia
fax +372 650 1251	fax +372 650 1251	phone +372 650 1250
e-mail andres.trink@merko.ee	e-mail signe.kukin@merko.ee	group.merko.ee

DECLARATION OF CONFORMITY TO RECOMMENDATIONS OF GOOD CORPORATE GOVERNANCE CODE

The Corporate Governance Code principles are recommended to the publicly traded companies and the entities are free to decide whether to follow the main CGC principles or not. The Corporate Governance Code is based on the principle of follow or explain according to which an entity shall explain its standpoints and activities with regard to those CGC provisions which it does not follow.

We have assessed the structure and functions of the management of AS Merko Ehitus on the basis of Good Governance Code. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are in significant part in compliance with the Good Governance Code. Also, our activities comply with the Estonian legislation that regulates several principles provided in the code in more detail. We hereby declare, that AS Merko Ehitus has followed all the recommendations of CGC, with exception of Section 2.2.7, that is provided below with the explanation why the company is not following it at the present:

CORPORATE GOVERNANCE RECOMMENDATIONS	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
2.2.7 Basic wages, performance pay, severance packages, other benefits payable and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the Corporate Governance Recommendations report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.	AS Merko Ehitus publishes in its annual report the total amount of remuneration and bonuses paid to member of the Management Board, as it believes that public disclosure of personal income does not create value added for shareholders but does violate the privacy of members of the Management Board.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial objectives. The company considers it important to assess aggregate group's risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. The following are deemed by the company to be the most significant risks: market risk, operational risk and financial risk, including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks. Detailed description of financial risks is provided in Note 35 of the financial statements.

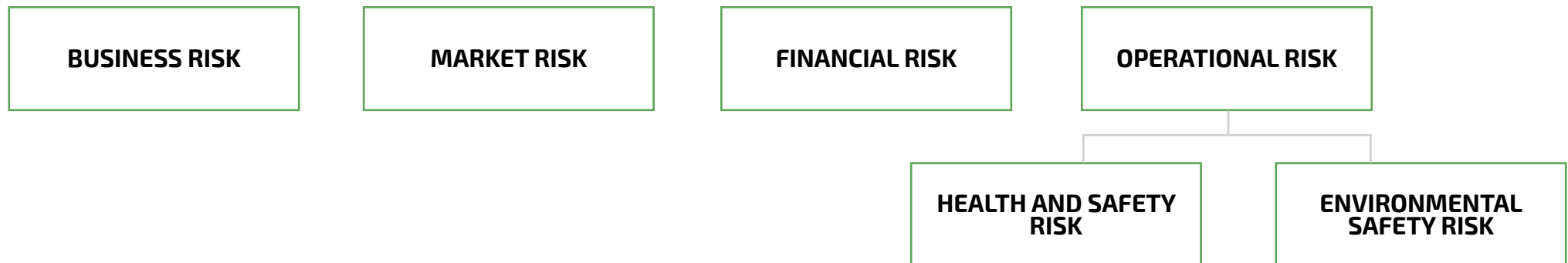
Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.



THE COMPANY MANAGES RISKS SO AS TO ACHIEVE ITS STRATEGIC AND FINANCIAL OBJECTIVES.

Group risk management is coordinated by the management board who develops, implements and maintains processes covering group activities for the management of all material risks impacting the activity and results of Merko Ehitus. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been assigned. Risk-taking is a normal part of business but in doing so, one must be convinced that if the risk materializes, purposeful and sustainable activity is maintained with reference to the strategy of the company and business unit. The group assesses ongoing business risks and risks affecting development projects in a calculated manner.

MERKO EHITUS DIVIDES RISKS INTO FOUR MAIN CATEGORIES:



BUSINESS RISK

The group takes calculated risks for the purpose of increasing revenue. The biggest business risks relate to the entry of Merko Ehitus to new markets and segments, the management of existing inventories and investments and the execution of awarded construction contracts. One of the peculiarities of construction activities is the fact that the execution of the contracts concluded is a long-term process, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months. This time lag enables the sector to arrange its activities to be prepared for potential setbacks as well as booms.

Operating in several different markets requires orientation in the environments of various countries. The main areas of attention are the different cyclicity attributes of different economies and legal, cultural and political differences. The main objective of Merko Ehitus is to expand into new segments in existing markets. When entering new markets, the company thoroughly studies local customs and peculiarities before making final investment decisions and makes sure that the environment is sufficiently stable and a competent team is assembled.

From the investments point of view, the main risks relate to the portfolio of properties and implementation of property development projects. Merko Ehitus carries out real estate development projects as an integrated process, comprising all activities from the acquisition of the property, proceedings related to the detailed plan, handling design and construction and finally sale of finished apartments to the customer and warranty service. The group uses standard policies for implementing real estate development projects in order to ensure the use of best practices that the entire group has accumulated over years. Merko Ehitus continuously analyses its existing inventory of land with development potential to ensure that the portfolio contains a sufficient number of properties to carry out developments suitable to the market. Investments in new properties of up to EUR 3 million are decided on the supervisory board level of subsidiaries and then further approved by the supervisory board of the group.

MARKET RISK

Significantly more attention is being paid to potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability.

Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development area is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. Due to the selectiveness of the real estate market, setting the right sale price for new development projects in the given region have become very important. For hedging the area's price risk, price statistics collected by the group and available from other public sources is being constantly analysed.

Market risk that is partially related to financial risks also includes **currency risk and interest rate risk**. The analysis of these risks is provided in Note 35 of the financial statements.

FINANCIAL RISK

Financial risks include risks related to adequate capitalisation level and financing, currency, interest rate and credit risk. Financial risks are managed through accounting and finance rules, as well as audit. The group's finance department is ultimately responsible for forecasting the cash flows of Merko Ehitus, continuously monitoring various subsidiaries' cash positions and forecasts. The group has enacted a regular budgeting procedure whereby the group's annual forecasts are updated as a minimum four times per year.

The analysis on **CREDIT, LIQUIDITY AND LEGAL RISKS** is provided in Note 35 of the financial statements.

OPERATIONAL RISK

Operational risks are risks caused by inadequate or ineffective processes, people, equipment, systems or external events. The main goal of operational risk management is to reduce the effect of unwanted events. In order to meet the objective, the group is developing internal processes and control systems. In order to ensure the group's high level of project management, project teams are continuously trained, business processes are improved and results are monitored.

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented ISO 9001/14001 management systems and Merko Ehitus Eesti, Merko Infra, Merko Tartu and Latvian and Lithuanian subsidiaries have implemented the occupational health and safety management system OHSAS 18001. The group employs 9 (2014: 10) full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 9.6 million. The risks of the projects which cost exceeds EUR 9.6 million or the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2015, indemnity applications submitted to insurance companies totalled EUR 0.87 million (2014: EUR 0.85 million), and insurance benefits were received in the amount of EUR 0.86 million (2014: EUR 0.83 million).

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. In 2014, warranty provisions were set up at the group in the total amount of EUR 1.00 million (2014: EUR 1.09 million) and disbursements amounted to EUR 0.71 million (2014: EUR 0.76 million). As at the year-end, the company's warranty provision amounted to EUR 2.38 million (31.12.2014: EUR 2.10 million). With regard to work performed by subcontractors, the

subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.



merko
2015